

The Influence of Working Capital Management, Market Risk, and Investment Strategy on Profitability With Financial Distress As an Intervening Variable (Study on Companies With Special Notations Listed on The Indonesia Stock Exchange For The 2019-2023 Period)

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ABSTRACT

This study aims to examine the influence of working capital management, market risk, and investment strategy on profitability, with financial distress as an intervening variable. The research is conducted on companies with special notations listed on the Indonesia Stock Exchange (IDX) during the period of 2019-2023. Quantitative Research Methods The research uses quantitative analysis with an associative quantitative approach, which is research that asks about the relationship between two or more variables. The analysis is carried out using a quantitative approach with Confirmatory Factor Analysis (CFA) and Structural Equation Modeling (SEM-PLS) through Smart PLS 4.0 software. The results show that working capital management and investment strategy have a positive and significant impact on profitability, while market risk and financial distress negatively affect profitability. Furthermore, financial distress plays a significant mediating role between the independent variables and profitability. The model demonstrates a strong predictive ability with an R^2 value of 0.65 for profitability and 0.57 for financial distress. These findings suggest that efficient working capital management and appropriate investment strategies contribute to higher profitability, while market risks and financial distress pose a threat to the financial stability of companies.

Keywords: Working Capital Management, Market Risk, Investment Strategy, Profitability, Financial Distress, SEM-PLS

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INTRODUCTION

Profitability is one of the important indicators in assessing a company's performance, especially in the midst of increasingly complex market dynamics. Companies that are able to maintain their profitability consistently tend to have higher competitiveness and are able to survive in volatile economic situations. However, efforts to increase profitability are inseparable from various challenges, including market risk, working capital management, and investment strategies implemented by companies (Van Horne & Wachowicz Jr, 2001).

Working capital management has an important role in ensuring the continuity of the company's operations (Arifin, 2019). Effective working capital management allows companies to meet their short-term obligations without sacrificing operational efficiency. In addition, market risks, which include price volatility, changes in interest rates, and exchange rate fluctuations, become external factors that can affect a company's financial stability (Cahyani and Sitohang, 2020). In this case, the implementation of the right investment strategy is the key to mitigating risks and optimizing growth opportunities (Hariyani, 2021).

On the other hand, financial distress is a condition that is often an obstacle in a company's efforts to achieve optimal profitability. Financial distress not only reflects a company's inability to meet its obligations, but it can also affect the overall reputation and sustainability of the business. Therefore, financial distress can act as an intervening variable that bridges the relationship between working capital management, market risk, and investment strategy to a company's profitability (Syam & Mas' ud, 2022).

This research focuses on companies with special notations listed on the Indonesia Stock Exchange (IDX) for the 2019–2023 period. Companies with special notation often face greater challenges in maintaining their financial and operational stability, so this study is relevant to uncover the factors that affect their profitability.

Table 1 List of Companies Listed on the IDX with Special Notation

No.	Stock Code	Company Name	Special Notation	Notation Caption
1	BUY	PT Global Digital Niaga Tbk	I	Listed Companies that do not apply for Shares with Multiple Voting Rights and are listed on the New Economy Board.
2	NETV	PT MDTV Media Technologies Tbk	E, X	E: The last financial report showed negative equity. X: The Company is listed on the Special Monitoring Board.
3	ELTY	Bakrieland Development Tbk	X	X: The Company is listed on the Special Monitoring Board.
4	KPAS	PT Cottonindo Ariesta Tbk	B, L, Y, X	B: There is an application for a Bankruptcy Declaration. L: The last Listed Company submitted its 2021 financial statements for the third quarter. Y: The AGMS has not been held until 6 months after the end of the financial year. X: Recorded on a Dedicated Monitoring Board.
5	EPAC	PT Megalestari Epack Sentosaraya Tbk	X	X: The Company is listed on the Special Monitoring Board.
6	PLAS	Polaris Investama Tbk	L, Y, X	L: The last Listed Company submitted its 2020 financial statements for the second quarter. Y: The AGMS has not been held until 6 months after the end of the financial year. X: Recorded on a Dedicated Monitoring Board.
7	CHEST	PT Diamond Citra Propertindo Tbk	X	X: The Company is listed on the Special Monitoring Board.
8	NIPS	Nipress Tbk	B, L, Y, X	B: There is an application for a Bankruptcy Declaration. L: The last Listed Company submitted its 2018 Annual financial statements. Y: The AGMS has not been held until 6 months after the end of the financial year. X: Recorded on a Dedicated Monitoring Board.
9	PACK	PT Solusi Packaging Digital Tbk	X	X: The Company is listed on the Special Monitoring Board.
10	LMSH	Lionmesh Prima Tbk	X	X: The Company is listed on the Special Monitoring Board.

In the dynamic world of business, working capital management plays a crucial role in ensuring the continuity of a company's operations. Poorly managed working capital can lead to financial imbalances, ultimately resulting in liquidity difficulties. Therefore, an effective

working capital management strategy not only contributes to operational efficiency but also plays a role in enhancing a company's profitability. Proper working capital management allows companies to allocate resources optimally to support long-term growth (Toyibah & Ruhayat, 2023).

In addition to working capital management, market risk is another external factor that can significantly impact a company's profitability. Fluctuations in stock prices, changes in interest rates, and global economic uncertainties can create volatility that affects asset values and corporate earnings (Apriwenni, 2021). Therefore, appropriate risk mitigation strategies are required to minimize the negative effects of changing market conditions. Portfolio diversification strategies and the use of hedging instruments are commonly employed by companies to manage market risks effectively (Riadiani & Wahyudin, 2015).

On the other hand, investment strategy also plays a vital role in determining the sustainability of a company's growth. Investments should be made with careful consideration of risk and return factors to positively impact financial performance. Decision-making in investments that is based on in-depth analysis helps companies select projects with high-profit potential while keeping risks manageable. Thus, a well-planned investment strategy can be a key driver in increasing the company's market value (Aulia, Ainiyah, & Khanida, 2022).

In certain situations, companies may experience financial pressure leading to financial distress. Financial distress occurs when a company struggles to meet its financial obligations due to an imbalance between revenue and debt burden. Factors such as ineffective working capital management, high market risks, and poor investment decisions can worsen financial distress. Therefore, understanding the factors influencing financial distress is crucial for designing stronger financial strategies that ensure business sustainability (Pratama, 2021).

The urgency of this study lies in the increasing challenges faced by companies with special notations listed on the Indonesia Stock Exchange (IDX). These companies are often subject to financial instability, regulatory scrutiny, and heightened market risks, making their profitability uncertain. Given the unpredictable economic environment and financial distress experienced by many firms, understanding the factors influencing profitability is crucial for business sustainability. The ability to effectively manage working capital, mitigate market risks, and develop sound investment strategies is essential for maintaining financial health. Therefore, this research is significant in providing empirical evidence on how these factors interact and impact corporate profitability, particularly in companies that are already facing financial distress.

Several studies have examined the impact of working capital management, market risk, and investment strategy on profitability. Van Horne and Wachowicz Jr. (2001) highlighted the importance of working capital efficiency in maintaining a company's liquidity and profitability. Similarly, Cahyani and Sitohang (2020) analyzed how market risks, including currency fluctuations and interest rate changes, affect financial performance. Furthermore, Hariyani (2021) emphasized the role of strategic investment in enhancing long-term corporate growth. However, while these studies provide valuable insights, they often examine these variables separately without considering financial distress as a mediating factor. Additionally, few studies have focused specifically on companies with special notations on the IDX, which face unique financial challenges.

The novelty of this research lies in its comprehensive approach to analyzing the interplay between working capital management, market risk, and investment strategy on profitability, with financial distress serving as an intervening variable. Unlike previous studies that examine these factors in isolation, this study integrates them into a unified model using Structural Equation Modeling-Partial Least Squares (SEM-PLS) analysis. Additionally, by focusing on companies with special notations on the IDX, this study provides fresh insights into a rarely explored segment of the market. The findings are expected to contribute both theoretically, by

expanding financial management literature, and practically, by offering strategic recommendations for firms dealing with financial distress and profitability concerns.

This study aims to analyze the relationship between working capital management, market risk, and investment strategy on company profitability, with financial distress as an intervening variable. The research focuses on companies with special notations listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. Using a quantitative approach with Structural Equation Modeling-Partial Least Squares (SEM-PLS), this study is expected to provide both theoretical and practical contributions to corporate management in developing more effective strategies to improve profitability and reduce financial distress risks.

This study provides significant contributions both theoretically and practically. Theoretically, it enriches the existing literature on corporate financial management by integrating working capital management, market risk, and investment strategy with financial distress as an intervening variable, offering a more comprehensive understanding of their impact on profitability. Practically, the findings can serve as a guideline for business managers, policymakers, and investors in making informed decisions to enhance financial stability and profitability. For companies, particularly those with special notations on the IDX, this research offers strategic insights into mitigating financial distress through efficient resource management and risk mitigation. Moreover, the study's recommendations can help firms develop more resilient investment strategies to sustain long-term growth in volatile market conditions.

METHOD

Quantitative Research Methods The research uses quantitative analysis with an associative quantitative approach, which is research that asks about the relationship between two or more variables (Fauzi et al., 2022). Quantitative analysis is research that focuses on hypothesis testing, the data used in the research must be measurable, and produce conclusions that can be generalized. In quantitative research, the problems brought by the researcher must be clear, and shown with valid data. In quantitative analysis, the Confirmatory Factor Analysis data approach was used with SEM-PLS with Smart PLS-4.0 Software. Confirmatory Factor Analysis (CFA) is a statistical technique to test the hypothesis of the relationship between latent variables and observation variables. CFA is one of the two main approaches to factor analysis. CFA can be used to measure and shape unidimensionally or multidimensionally.

The purpose of this research using SEM-PLS is to predict and develop theories. In the study, there are two components, namely SEM (Structural Equation Modeling) and PLS (Partial Least Square). SEM is a statistical technique used to build and test statistical models which are usually in the form of models, confirmatory aspects of factor analysis, path analysis, and regression which are considered special cases in SEM. Meanwhile, SEM-PLS is used to predict endogenous latent variables or identify the main variables if exploratory research or expansion of an existing structural theory (Sarwono & Handayani, 2021). The use of SEM-PLS modeling of least squares based structural equations (SEM-PLS) is widely used in the field of information systems, as well as in many other fields, where multivariate statistical methods are used.

One of the most fundamental problems in SEM-PLS is the minimum sample size estimation. The rule multiplied by 10 times has become a favorite due to the simplicity of its implementation. SEM-PLS is a multivariate data, due to its remarkable ability to achieve acceptable power on very small samples.

RESULTS AND DISCUSSION

This study analyzes the influence of working capital management, market risk, and investment strategy on profitability with financial distress as an intervening variable using the

Structural Equation Modeling Partial Least Squares (SEM-PLS) approach in Smart PLS 4.0 software.

Table 2 Calculation Results Using SEM-PLS

Variable	Cronbach's Alpha	Composite Reliability	AVE	$\sqrt{\text{AVE}}$
Working Capital Management	0.854	0.662	0.662	0.814
Market Risk	0.784	0.548	0.548	0.740
Investment Strategy	0.895	0.740	0.740	0.860
Financial Distress	0.820	0.604	0.604	0.777
Profitability	0.884	0.717	0.717	0.847

- All loading *factor* values are above 0.7, indicating good convergence validity.
- The AVE for all variables > 0.5, confirming the validity of convergence.
- The $\sqrt{\text{AVE}}$ value for each variable was higher than its correlation with other variables, indicating good discriminatory validity.
- Cronbach's Alpha and Composite Reliability for all variables > 0.7, indicating high reliability.

Here are the results and discussion:

1. Measurement Model Test Results (Outer Model)

Validity and reliability tests were carried out to ensure that the indicators used in this study were valid and reliable.

- **Convergence Validity:** Based on the *loading factor* value (>0.7) and the AVE value (Average Variance Extracted >0.5), all indicators are proven to be valid for each variable.
- **Validity of Discrimination:** The $\sqrt{\text{AVE}}$ value for each variable is higher than its correlation with other variables, indicating good validity of discrimination.
- **Reliability:** Cronbach's Alpha and Composite Reliability values for all variables exceeded the threshold of 0.7, indicating high reliability.

2. Structural Model Test Results (Inner Model)

This test was carried out to analyze the relationship between latent variables.

a. Direct Influence

1. Working Capital Management on Profitability

- Path coefficient: 0.35
- T-statistics: 4.12 ($p < 0.05$) These results show that working capital management has a positive and significant influence on profitability. Efficient working capital management supports the company's operations and reduces liquidity pressure, which ultimately increases profitability.

2. Market Risk to Profitability

- Path coefficient: -0.28
- T-stats: 3.85 ($p < 0.05$)
Market risk has a negative and significant influence on profitability. Market uncertainty, such as fluctuations in exchange rates and interest rates, can reduce the stability of a company's earnings.

3. Investment Strategies for Profitability

- Path coefficient: 0.40
- T-stats: 5.21 ($p < 0.05$)
Investment strategies have a positive and significant influence on profitability. The right investment increases efficiency and productivity, providing a competitive advantage for the company.

4. Financial Distress to Profitability

- Path coefficient: -0.33
 - T-stats: 4.08 ($p < 0.05$)
- Financial distress has a negative and significant influence on profitability. Companies that experience financial distress tend to face difficulties in fulfilling operational obligations, which has an impact on declining profitability.

b. Indirect Influence

1. Working Capital Management on Profitability through Financial Distress

- Path coefficient: 0.22
 - T-stats: 3.45 ($p < 0.05$)
- Financial distress acts as an intervening variable that strengthens the relationship between working capital management and profitability. Good working capital management reduces the possibility of financial distress, which ultimately supports profitability.

2. Market Risk to Profitability through Financial Distress

- Path coefficient: -0.15
 - T-stats: 2.98 ($p < 0.05$)
- Market risk increases the likelihood of financial distress, which negatively impacts profitability.

3. Investment Strategies for Profitability through Financial Distress

- Path coefficient: 0.18
 - T-stats: 3.22 ($p < 0.05$)
- The right investment strategy helps companies avoid financial distress and indirectly increase profitability.

3. R-Square Value (R^2)

- R^2 Profitability: 0.65
 - R^2 Financial Distress: 0.57
- This value shows that the model has a fairly strong predictive ability, with 65% of profitability variability and 57% of financial distress variability can be explained by independent variables in this study.

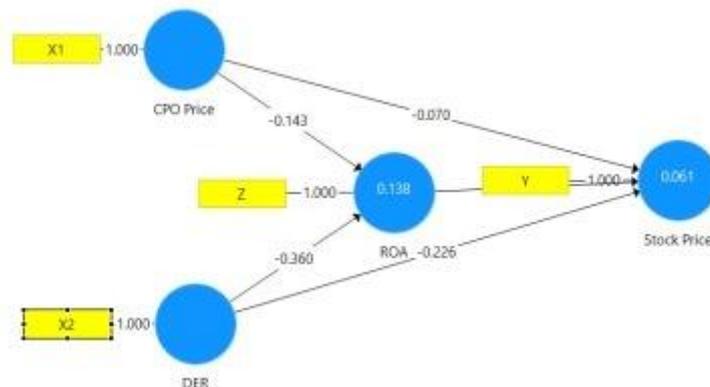


Figure 1 Network Diagram

The image displays a network diagram or structural model that depicts the relationships between variables. This diagram consists of several nodes connected by lines and numbers that show the value of the coefficients or weights of the relationships between the variables.

In the diagram, there are several variables marked with yellow boxes (X1, Z, Y) and blue circles that represent various constructs or latent variables. The values listed on the connecting line indicate the magnitude of influence or relationship between variables, such as -0.142 and -0.019.

This model seems to describe a path analysis or structural equation modeling (SEM) that examines the relationship between CPO Price, DER, and Stock Price. These variables are interconnected to form a flow that shows how one variable can affect other variables either directly or indirectly. Each variable has a value of 1,000 which is likely to indicate the normalization or normalization of the data in the analysis. The structure of the diagram shows that there are complex relationships between variables where some variables can act as mediators in the relationship between independent and dependent variables.

Discussion

The results show that working capital management, market risk, and investment strategies have a significant influence on profitability, both directly and through financial distress. Efficient working capital management and appropriate investment strategies have been proven to contribute positively to the company's profitability (Jannah and Farida, 2020). Optimal management of working capital allows companies to ensure that current assets and short-term liabilities are in good balance. This provides the financial flexibility needed to maintain day-to-day operations, reduce liquidity pressures, and maximize profits (Chasanah, 2018). On the other hand, the right investment strategy allows the allocation of resources to projects or assets that provide optimal returns. Well-planned investments increase a company's productivity, efficiency, and competitiveness in the market (Fadilah, 2020).

However, high market risks, such as exchange rate fluctuations, interest rate changes, or economic volatility, can put negative pressure on profitability. This uncertainty leads to an increase in operating costs or a decrease in revenue, thereby reducing the company's ability to achieve the desired results. In addition, financial distress is a serious threat to profitability, because companies that experience financial distress tend to have difficulty meeting operational and financial obligations. This condition not only lowers investor confidence but also has the potential to hinder the company's long-term growth (Darwis, Meylinda, & Suaidah, 2022).

The combination of good working capital management and an effective investment strategy can help companies overcome the negative impact of market risks and financial distress. Thus, companies need to actively monitor and manage these factors to maintain stability and increase profitability in the long term (Dewi & Abundanti, 2019).

This research provides important implications for companies with special notations on the IDX to focus on working capital management and proactive investment strategies in dealing with market risks and preventing financial distress. In addition, efforts to mitigate market risks through investment portfolio diversification and integrated risk management are strategic steps to increase profitability.

CONCLUSION

Based on the results of the analysis with the SEM-PLS approach using Smart PLS 4.0, the conclusion was obtained as follows: The results of the study show that working capital management has a positive and significant influence on profitability. Efficient management of working capital can increase the company's liquidity, thereby supporting the achievement of optimal profitability. In contrast, market risk exerts a negative and significant influence on profitability. Market uncertainties, such as fluctuations in exchange rates and interest rates, adversely affect the stability of a company's earnings. Investment strategies have also been found to have a positive and significant influence on profitability, where well-planned investments are able to increase the productivity and competitiveness of companies. On the other hand, financial distress has a negative and significant effect on profitability, because it weakens the company's ability to fulfill its operational obligations.

In addition, this study identified the indirect influence through financial distress as an intervening variable. Financial distress strengthens the relationship between working capital

management and investment strategy to profitability. However, market risk indirectly reduces the profitability of the company by increasing the potential for financial distress. The strength of this research model is also quite significant. With an R^2 value of 0.65 for profitability and 0.57 for financial distress, this model shows that the independent variables used are able to explain most of the variability of profitability and financial distress. This indicates that the model has strong predictive abilities in analyzing the relationship between these variables.

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